



How SMBs Can Optimize Their Human Capital Investment

Why Your HR Team Needs a Human Capital Mindset

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Today's "talent arms race" is creating new recruitment and retention urgencies. A company's ability to recruit and retain top talent is just the starting point; how a company strategically deploys their talent is what truly matters. This brings human capital to the forefront as companies' most valuable resource – and leading-edge companies are acknowledging this by bringing a human capital mindset to their Human Resources departments. This approach empowers HR professionals to optimize the three key components of human capital – time, talent and energy – driving performance productivity and company-wide success.

Why HR Needs a Human Capital Mindset

Companies are struggling to close the widening gap being created by the rapid pace of change in the digital age, including changes to human capital acquisition and deployment. Eighty-one percent of HR leaders surveyed by the [2017 Deloitte Global Capital Trends report](#) identified "talent acquisition" as a major challenge. Increasingly, companies are integrating cognitive tools and analytics into recruitment to address these gaps. Even with the latest technologies, however, companies must still address larger organizational issues associated with talent deployment. After all, it doesn't do anyone much good to pay top dollar for talent if your company's institutional barriers stymie this talent's ability to succeed.

Your company's most important resource is not a tangible one. It is not a product, technology, or intellectual property. Your company's people – its human capital – are its most valuable resource. That's why CEOs and HR experts routinely talk about the importance of "investing in human capital" and "developing and retaining human capital". Yet at many SMBs, business leaders are struggling to keep up with day-to-day business demands, much less invest resources in human capital development. Their HR departments are focused primarily on paperwork, benefits and compliance issues, rather than assessing performance, identifying individuals who drive team success, and then empowering these individuals to be even more effective. That's a major and potentially crippling oversight given today's talent arms race.

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Companies must make talent acquisition, retention and deployment decisions that are grounded in reality. For example, can your HR team readily identify which employees actively make their teams better? What about



the individuals who are more “behind the scenes” players and not readily receiving recognition? How can your company empower these individuals or eliminate existing barriers to success? Without a human capital focus, HR departments often lack the essential resources, leadership buy-in, and oversight to identify and take action on opportunities for productivity and business performance improvement.

Human Capital divisions have traditionally been associated with larger companies. SMBs of any size – even those with HR departments of one – can benefit from adopting a strategic approach to time, talent, and energy optimization, forecasting future talent needs, and refining the current hiring process. From Fortune 500 companies to small and medium-sized businesses (SMBs), HR must rebrand, reposition, and reorient itself if it is to play a critical role in improving business performance and increasing return on investments in human capital.

Human Capital in the Workplace: Talent, Time and Energy

Human capital can be measured by focusing on its three key components: [talent, time and energy](#). Eric Garton, a partner in Bain & Company’s Chicago office and leader of their Global Organization practice, defines these three components as follows.

- Talent: The skills, capabilities, and ingenuity employees bring to their work
- Time: The hours that employees put into their jobs
- Energy: The level of engagement, passion, and focus employees apply to their work

Human capital is converted into productivity and economic value through the interaction between talent, time and energy. By analyzing these three factors, HR departments can identify opportunities to optimize their organization’s overall performance, tying human capital back to business objectives through actionable, strategic insights.

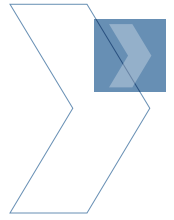
1. Talent.

From exhaustive executive searches to generous compensation packages, companies invest significant resources recruiting and retaining top talent. The thinking often goes something like this: the more talent a company has on staff, then the greater success that company will achieve compared to the competition. However, this focus on amassing the greatest amount of talent overlooks the importance of strategic talent deployment.

Strategic talent deployment is a productivity force multiplier. An inspirational leader who is attuned to her team’s strengths and weaknesses, for example, will know how to get the best effort from her team. This results in an exponentially positive impact on strategy execution, performance, and productivity for the entire company. Conversely, ingrained company processes could be limiting this employee’s ability to effectively empower her team. Not only does this reduce her talent output, this also disproportionately reduces her team’s entire output potential.

HR improvement takeaway:

Start by identifying the structures and processes within an organization that are hindering talent deployment. Systematically removing these obstacles can dramatically improve talent deployment and boost company-wide



workforce productivity. Next, consider which employees are “star performers” and evaluate their respective strengths. Each star performer may have a slightly different approach to management. Ensure star performers are appropriately teamed with the right employees to serve as a “talent productivity multiplier.”

2. Time.

Structural time-based losses occur when companies hard-wire time-wasting routines into their operating models, like unproductive weekly staff meetings. Structural hierarchies, processes, and systems codify and exacerbate these time losses. For example, consider the weekly staff meeting: this meeting could be a legacy based on established precedent from supervisors or managers who are no longer even with the company. Yet due to institutional norms, the meeting continues each week, causing a workflow interruption that extends far beyond the one-hour time slot.

Behavioral losses are linked to cultural norms within an organization that exacerbate inefficiencies and cripple talent deployment. For example, consider a mid-level employee who has a new idea: how much autonomy does that employee have to pursue his idea? If the employee has to navigate a maze of decision-making norms and feedback systems while the idea slowly makes its way to the top of the chain for approval, by the time the employee gets the green light, weeks or even months may have transpired. These structural and behavioral barriers not only result in time loss but can also lead to employee disengagement. If an employee is consistently frustrated by long waits for project approvals, the employee will be less likely to pursue innovative ideas in the future and more likely to accept the status quo—hardly a desired outcome for either the employee or your company.

HR improvement takeaway:

Identify and address the root causes of time-based losses. Start by assessing structural opportunities for improvement: what current hierarchies or processes consistently waste time? Next, direct the focus to behavioral opportunities for improvement: what institutional norms have erected unnecessary barriers to success? Changing institutional hierarchies, processes and norms can be a tenuous and at times controversial process. A candid evaluation and tough conversations may be necessary to help company leadership stop inadvertently blocking their own company's success.

3. Energy.

Energy – the level of engagement, passion, and focus that employees apply to their work – is the single largest source of productive power. Talent that encompasses all three intangibles will deliver a higher quality of work than talent with just one or two of these elements. For example, an employee may be passionate about a specific cause or issue, but if that employee feels disengaged at work or is unfocused, this passion will not translate into results.

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Balancing accountability and autonomy is an additional energy consideration. High performers thrive when given the freedom to innovate and create. They also need to be held accountable for their performance and end results. The right balance for your organization or individual employees may look very different than what's



right for other companies. HR can help by providing direction.

HR improvement takeaway:

A single-minded focus on engagement overlooks the importance of passion and focus for talent deployment optimization and performance success. Start by shifting your company's conversation away from "How can we improve employee engagement" and towards "How can we inspire and energize our employees?" Next, consider how the workplace environment balances autonomy and accountability. Remember that the right balance may be very different between teams or even individual employees.

Bringing a Human Capital Mindset to Your HR department

Empowering HR departments to honestly describe what's really going on within an organization and provide actionable change recommendations requires a shift in thinking. Company leadership must acknowledge that the challenges of today's talent marketplace go beyond recruitment. Strategic talent deployment is critical to an organization's bottom line success as well as its retention efforts. After all, employees are less likely to leave a company if they feel like they are in a position to make a real difference with their work. Employees who spend all their time trapped in unproductive meetings or waiting on an approval chain for next steps are less likely to feel their individual work matters.

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The role of HR with a human capital mindset will be slightly different at every company since it must be tailored to that company's needs. For example, if your organization is struggling with productivity, HR should be empowered to give an honest assessment of this organizational challenge and improvement opportunities. This could start with an in-depth look at time losses and the structural and behavioral opportunities for driving productivity improvements.

These are general next steps to bring a human capital mindset to your company:

1. Empower HR to expand its focus to human capital assessment.

Problem: To secure leadership buy-in, HR must rebrand from a division that exists primarily to monitor compliance to a division that is viewed as an independent value generator.

Solution: When presenting your case to the executive team, give clear examples that quantify your HR team's potential impact on talent deployment optimization. For example, if your organization is struggling with productivity, note that the average company loses [21 percent of its productive power](#) to time-wasting interactions, like unnecessary or inefficient meetings, according to research published by Harvard Business Review. Institutional norms hardwire these time losses. As an external department, HR is uniquely positioned to objectively identify and effect change on these processes. According to HBR, companies with a human capital focus are able to reduce productivity loss by nearly 50 percent simply by addressing structural and behavioral time-based losses. Document examples of structural and behavioral time-based losses and opportunities for removal or refinement.



2. Define the process: goals, scope and outcomes.

Problem: Even with compelling research supporting a shift in HR's focus to human capital, executive leaders are unlikely to support an initiative that lacks a clear workflow process or guidelines for measuring success.

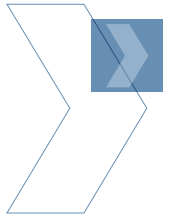
Solution: Position your HR team for success by establishing guidelines regarding goals, scope, and outcomes.

- **Goals:** Define your vision and mission. For example, if the big-picture vision is to be an independent value generator for your company, how will HR apply a human capital mindset each day to achieve these goals? What milestones need to be reached each month or each week to achieve this bigger goal?
- **Audit:** Assess where your company currently stands. What known human capital issues are impacting talent deployment? Don't overlook the resources already at your disposal. For example, your HR department may have a wealth of exit interviews; what information can be gleaned from these interviews to identify and address specific human capital problems?
- **Scope:** Based on the audit, prioritize which issue to tackle first and drill down on specifics. For example, if declining productivity is a persistent problem for your company, HR could look at structural time-based losses, behavioral losses or talent teaming. Detail which element of the productivity problem HR will address first.
- **Outcome:** How will you measure success? Both qualitative and quantitative assessments may be relative. Start with an employee opinion survey to establish a baseline and then determine relevant intervals for measuring program impact.

3. Create a roadmap.

Problem: Identifying a human capital problem is just half the battle. Your team still needs a clear roadmap for implementing institutional changes to address and correct the problem.

Solution: Determine the best method for building change consensus. This may start with an assessment presented to the executive team detailing the problem in full and the adverse impact on your organization. Next, detail each change recommendation, a timeline for implementation and expected outcomes. Returning to our productivity example, if you identify weekly team meetings as an institutional barrier to productivity, consider how you will explain the problem to the executive team and present a solution. What is the stated objective for these meetings and why is this objective not being achieved? How can this objective be better realized through alternative options? For example, you might suggest replacing weekly team meetings with a one-on-one monthly meeting to set goals, provide constructive feedback on previous goals, and identify action items for improvement. Another option could be spot-checking performance goals in real-time and following up if expectations are not met, rather than waiting for a weekly "check-in" to determine that the team is behind on a project. Keep the focus on constructive solutions and ensure buy-in from all parties affected by the new policies.



The Future of HR

Talent and culture are the biggest drivers of innovation, growth, and performance. It is not enough, however, to simply hire talented people. Here in Denver, for example, unemployment rates are at a [historic low of 2.6 percent](#), giving talent significant leverage when it comes to selecting their next employer. This places an emphasis on human capital as a resource investment that must be strategically deployed to satisfy the importance of keeping superior talent. Now, more than ever, company leadership must recognize the importance of human capital and take concrete steps to empower HR. Through human capital management, HR has a profound ability to impact and influence a company's success, setting the tone and vision for a company's future.

Tomorrow's talent market may be very different than today's. Everything from new technologies to unemployment fluctuations can have a profound impact on talent recruitment and retention. Integrating a human capital mindset into your HR department today will equip your company with the resources it needs to address whatever challenges tomorrow may bring.